

Message Text

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ORIGIN EA-10

INFO OCT-01 ISO-00 AGR-05 CIAE-00 COME-00 EB-07 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 L-03 SS-15 NSC-05 /068 R

DRAFTED BY EA/LEEDMOND/EB:JWILLIAMS

APPROVED BY EA:LEEDMOND

EA/K:PMAYHEW

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R 102321Z JUN 75

FM SECSTATE WASHDC

TO AMEMBASSY SEOUL

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E.O. 11652: GDS

TAGS: ETRD, KS

SUBJECT: COTTON CONTRACT PROBLEM

REFERENCE: FASTO 115

1. REPRESENTATIVES OF U.S. COTTON SHIPPERS HAVE EXPRESSED CONCERN ABOUT PACE OF COMPLIANCE WITH SIGNED ASSURANCES. WE SHARE CONCERN SINCE WE BELIEVE MAJOR SLIPPAGE AT THIS EARLY STAGE WOULD HAVE SERIOUS CONSEQUENCES FOR IMPLEMENTATION OF UNDERSTANDING. FRANKLY, IT SEEMS HIGHLY DOUBTFUL THAT JUNE 30 COMMITMENT DATE FOR FIRST TRANCHE OF CONTRACTS CAN BE MET UNLESS THERE IS SUBSTANTIAL SPEEDUP IN OPENING OF LETTERS OF CREDIT. WE WOULD THEREFORE APPRECIATE EMBASSY PROMPTLY LOOKING INTO QUESTION, DETERMINING REASONS FOR DELAY, AND PROVIDING US WITH ANY RECOMMENDATIONS.

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2. IN CONNECTION WITH THE DELAYS SEVERAL SPECIFIC DEVELOP-

MENTS HAVE OCCURRED WHICH MAY BE RELEVANT. REQUEST EMBASSY INVESTIGATE AND REPORT AS TO THEIR SIGNIFICANCE. (A) WE UNDERSTAND SWAK HAS THUS FAR FAILED TO ALLOCATE \$75 MILLION ADDITIONAL GSM CREDIT AND THAT SECOND \$50 MILLION HAS NOT BEEN REALLOCATED TO ACCORD WITH PRIORITIES ESTABLISHED IN ANNEX. SOME KOREAN MILLS HAVE REPORTEDLY INDICATED THAT THEY PREPARED TO OPEN L/CS AS SOON AS ALLOCATION GRANTED.

(B) AT LEAST TWO SHIPPERS HAVE RECENTLY RECEIVED REQUESTS TO OBTAIN FINANCING FOR USANCE L/CS FOR POST ANNEX SALES AND ANNEX A SALES NOT IN AGREED ORDER. THIS OF COURSE DELAYS FULFILLMENT. THIS PROBLEM DISCUSSED REFTEL AND WE HOPE SWAK CAN MAKE CLEAR TO MILLS PROCEDURE AGREED UPON.

(C) WE INFORMED THAT ROKG STILL REQUIRES 40 CASH COLLATERAL ON USANCE L/C'S. WHILE THIS DOES NOT APPEAR TO BE IMMEDIATE PROBLEM, SINCE CCC CREDITS CURRENTLY ARE BEING USED, WE HOPE EMBASSY WILL FOLLOW CLOSELY SINCE, WE HEAR IT WILL IN FUTURE MAKE TIMELY OPENING OF L/C'S DIFFICULT IF NOT IMPOSSIBLE WHEN IT BECOMES NECESSARY TO RELY ON USANCE TO FULFILL CONTRACTS. EMBASSY WILL RECALL THAT DURING US TEAM'S VISIT WE URGED ROK TO LOWER THIS REQUIREMENT.

3. WE ALSO UNDERSTAND THAT DAINONG HAS GONE INTO RECEIVERSHIP. SINCE THIS MILL ACCOUNTS FOR 48 OF SALES ON ANNEX WE WOULD APPRECIATE RECEIVING DETAILS AS SOON AS THEY BECOME AVAILABLE. WE WORKING UNDER ASSUMPTION THAT ANY NEW FINANCIAL ARRANGEMENTS WILL CALL FOR FULFILLMENT OF AGREEMENT.

4. SHIPPERS ALSO REPORT THAT THEIR COTTON AGENTS IN SEOUL ARE UNDER INVESTIGATION BY KOREAN PROSECUTOR'S OFFICE AND, UNTIL INVESTIGATION IS COMPLETE, AGENTS WILL NOT BE ABLE TO COMMUNICATE WITH SHIPPERS. ACCORDING TO ONE REPORT AGENTS HAVE BEEN DETAINED IN CONNECTION WITH TAX INVESTIGATION. WOULD APPRECIATE EMBASSY ASSESSMENT, PARTICULARLY IF EMBASSY BELIEVES THERE IS ANY CONNECTION TO COTTON UNDERSTANDING AND WHAT IMPLICATIONS ARE FOR FUTURE RELATIONSHIP BETWEEN AGENTS AND US SHIPPERS. KISSINGER

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